November 09, 2020

Viacom18 Media Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	500.0	500.0	[ICRA]A1+ reaffirmed
Short-term, Fund-based / Non-fund Based Bank Facilities	1,610.7	1,610.7	[ICRA]A1+ reaffirmed
Total	**2,110.7**	**2,110.7**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the company's strong parentage with Reliance Industries Limited (RIL, rated [ICRA]AAA (Stable) / [ICRA]A1+ and Baa2 (Stable) by Moody's Investors Service) through its step-down subsidiary, TV18 Broadcast Limited (TV18, rated [ICRA]A1+), holding a 51% stake in Viacom18 Media Private Limited (Viacom18) and the balance stake being held by Viacom Inc. (rated Baa2 (Stable) by Moody's Investors Service). The rating also reflects the strategic importance of the media businesses [under the umbrella of its parent, TV18 and TV18's holding company, Network18 Media & Investments Limited (Network18, rated [ICRA]A1+)] to RIL. Independent Media Trust (IMT), of which RIL is the sole beneficiary, holds a majority stake in Network18. Viacom18's financial position is comfortable, as characterised by an improvement in its total debt / operating profit before depreciation, interest and tax or total debt/OPBITDA to 1.7 times and 2.0 times as on March 31, 2020 and September 30, 2020, respectively, over 3.7 times as on March 31, 2019, supported by higher profitability. Viacom18's liquidity position is strong, led by cash generation from existing businesses and a significant cushion from undrawn bank limits (almost 54% of Rs. 1,575 crore sanctioned limits on an average remained unutilised in the nine months ending September 30, 2020 and 42% utilised as on September 30, 2020). Despite the adverse impact of Covid-19, which resulted in a YoY decline of 26% in Viacom18's advertisement revenues during H1 FY2021 (as per standalone provisional financials), the company was able to report a strong YoY improvement in its standalone operating profit margin (OPM) to 13.1% during H1 FY2021 (as per standalone provisional financials), against an OPM of 8.6% in H1 FY2020, driven by broad-based cost controls.

The company has a diversified presence across genres in the television broadcasting industry, and its flagship Hindi general entertainment channel (GEC), Colors, has a strong brand franchise with differentiated content both in the fiction and non-fiction categories. Furthermore, the company's niche positioning in the youth, children's and English entertainment genres through brands such as MTV, Nickelodeon, Comedy Central and Vh1, and its strong market position in the children's genre support its business risk profile. Its increasing presence in the growing regional general entertainment channels (RGECs) space is also a positive. The company holds a number two position in both the Kannada GEC and the Marathi GEC genre. Its flagship channel, Colors, continues to be the most important revenue and profitability driver. Nevertheless, ICRA draws comfort from the strong brand franchise of the channel and the company's healthy market share in terms of urban viewership ratings, which has supported its advertisement and subscription revenues. ICRA also takes comfort from the company's efforts at diversification through scaling up the rest of the businesses.

Viacom18 remains exposed to risks inherent to the media and entertainment industry in terms of vulnerability of advertisement revenue-driven business profile to cyclicality in advertisement spends by corporates in addition to the rising competitive intensity with an increase in the total number of channels in the mass content as well as niche segments. Furthermore, ICRA notes the inherently working capital-intensive nature of its operations and the inherent volatility in the film production and distribution segment. Viacom18's profitability continues to be constrained due to significant, albeit judicious, investments in its new business segments such as its over-the-top (OTT) platform, VOOT Select and Voot Kids. The investments in the OTT platform are likely to continue, given the significant potential of the digital platform and the potential synergies with Jio. The company's ability to monetise the platform through a sustainable business model (such as subscription revenues which is currently in a nascent stage) in the medium term, however, will be crucial. Apart from meaningful recovery in the macro-economic prospects post the pandemic, which is critical from an overall industry perspective to drive advertisement revenues, Viacom18's ability to maintain leadership position in Colors and improve its market position across other genres, especially the regional entertainment space, will remain critical for its revenue growth and profitability.

Key rating drivers and their description

Credit strengths

Strong parentage of Viacom18 – With the acquisition of the additional 1% stake from Viacom Inc. during FY2018, Viacom18 became a subsidiary of TV18, holding 51% stake in Viacom18 and gaining operational control over the joint venture (JV). ICRA derives strong comfort from the parentage of Viacom18, with TV18 being a 51.17% subsidiary of Network18. RIL is the sole beneficiary of IMT, which holds a majority stake in Network18. The balance 49% stake in Viacom18 is held by Viacom Inc., which is a global entertainment major. RIL is India's largest private sector enterprise with presence across the energy value chain, apart from its presence in retail, oil marketing and the telecom segments. The company's strong parentage can help it meet any short-term funding mismatch and provide considerable refinancing flexibility.

Flagship Hindi GEC, Colors remains its mainstay – Colors, the flagship channel for Viacom18, remains its mainstay with differentiated content both in the fiction and non-fiction categories. The company's ability to maintain the leadership position of Colors will be critical to maintain its overall profitability.

Niche positioning in children's, youth and English entertainment space – The company has iconic brands in its portfolio such as MTV, Comedy Central, VH1 and Nick, which has helped it carve a strong and niche positioning in their respective segments. Furthermore, the children's genre has continued to demonstrate healthy financial performance (as indicated by the management) on the strength of its owned intellectual property rights (IPRs) and maintained its dominant position in the genre.

Regional channels help diversify revenue base – The company's presence in the regional entertainment genre provides diversity in revenues and gives it access to significant growth potential in the RGEC space. The company, as a bouquet, ranks number two in the Kannada GEC and also number two in the Marathi GEC. Furthermore, it launched a Tamil GEC during FY2018, a market with high potential, and regional movie channels (Kannada, Gujarati and Bangla) during the past two fiscals to expand its regional presence. Improving market share of the regional channels and consequent scaling up of revenues of the portfolio will be important for the overall improvement in revenues and profitability of the company.

Comfortable financial position – The company has a moderate capital structure (0.4 times) as on September 30, 2020, providing it flexibility to take on additional debt to support its investments. Furthermore, the profitability of the company's existing business segments (more than one year old) remains strong, which has helped it fund the investments in the OTT space and the new channel launches without significant incremental capital infusion or stretching the balance sheet. The company's OPM improved significantly to 14.7% during FY2020 and and 13.1% during H1 FY2021 (as per provisional financials) over 5.5% during FY2019 supported by high margin syndication revenues and broad-based cost controls despite the interim adverse impact of the pandemic on profitability during Q1 FY2021.

Credit challenges

Colors remains a significant driver for the company; nevertheless, comfort derived from the strong brand franchise of the channel – Despite diversification provided by expansion of the RGEC portfolio, Colors remains the most important revenue and profitability driver for the company. ICRA, nevertheless, derives comfort from the strong brand franchise of the channel and the company's efforts at diversification through scaling up the rest of the businesses.

Vulnerability of advertisement revenues to economic slowdown, viewership trends and competition – The media and entertainment industry remains vulnerable to cyclicality in advertisement spends by corporates and the rising competitive intensity with an increase in the total number of channels in the mass content and niche segment. The above factors challenge the company's ability to retain market share and by implication, its advertisement revenue share. The implementation of the new tariff order (NTO) with effect from March 01, 2019 resulted in increased transparency on channel pricing and content deals with the distribution platform operators (DPOs), as reflected in a robust and stable subscription revenue stream for Viacom18, partly compensating for the decline in advertisement revenues. Nevertheless, the pace of recovery in macro-economic prospects, post the pandemic, will be critical to drive the overall industry as well as Viacom18's advertisement revenue growth. Furthermore, any dramatic shift towards the digital medium away from the television medium is a key overhang for the sector, especially if its own OTT platform, VOOT, is not able to garner higher market share.

Gestation losses of new channels and continued investments in VOOT has moderated profitability– During Q4 FY2018, the company launched a Tamil GEC, subsequently a Kannada movie channel during Q2 FY2019 and VOOT International, a digital initiative, in Q4 FY2019. VOOT Kids was subsequently launched in Q3 FY2020 and VOOT Select, its subscription offering, was launched in March 2020. The gestation phase of these channels and the digital initiatives has moderated the company's OPM. The content and other investments in VOOT are likely to continue, given the significant potential of the digital platform. Its ability to monetise the same through a sustainable business model (such as subscription revenues which is currently at a nascent stage) over the medium term will be crucial. Nevertheless, syndication revenues and broad-based cost controls have partially offset the impact of the above initiatives and supported profitability during FY2020 and H1 FY2021.

Liquidity position: Strong

The profitability of Viacom18's broadcasting business improved significantly during FY2020 supported by syndication revenues and broad-based cost controls and is expected to remain comfortable. During H1 FY2021, despite the adverse impact of Covid-19, the company was able to report higher profitability led by strict cost controls. Despite strong profitability during FY2020, the company's fund flow from operations turned negative due to higher year-end debtors and slightly higher inventory levels and lower payables. This resulted in an increase in incremental external borrowings for working capital. However, the same reduced to Rs. 659.6 crore as on September 30, 2020 over Rs. 937.8 crore as on March 31, 2020 supported by higher collections, lower scale and better internal accruals. The company has considerable unutilised bank lines (an average utilisation of 54%) in the nine months leading up to September 2020 where total sanctioned bank limits stands at Rs. 1575 crore, which provides a lot of cushion. ICRA expects Viacom18's ultimate parent, RIL, to extend timely financial support to it, should there be a need.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Change in credit profile of the ultimate parent company, RIL, or reduction in majority stake by RIL in Network18 or any of its key subsidiaries or indication of reduced support to Viacom18 and/or deterioration in Viacom18's consolidated financial risk profile might result in a downward pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Media Broadcasting Industry](#) [Impact of Parent or Group Support on an Issuer's Credit Rating](#)
Parent / Group Support	**Parent Company:** RIL Group. IMT, of which RIL is the sole beneficiary, holds a majority stake in Network18. Viacom18 is a step subsidiary of Network18. ICRA expects Viacom18's ultimate parent, RIL (rated [ICRA]AAA (Stable) / [ICRA]A1+), to extend timely financial support to it, should there be a need, given the high strategic importance that it holds for the RIL Group.
Consolidation / Standalone	The rating is based on the consolidated financial profile of the company. As on March 31, 2020, the company had three subsidiaries and one JV that are enlisted in Annexure-2.

About the company

Incorporated in 1995, Viacom18 Media Private Limited is a 51:49 JV between TV18 Broadcast Limited and Viacom Inc. On February 28, 2018, TV18 increased its stake in Viacom18 to 51% from 50%, thereby making it a subsidiary of the company. Viacom18 is present in the television broadcasting space with a presence across the Hindi GEC space and niche genres such as youth, kids and English GEC. In the Hindi GEC space, it operates channels such as Colors, Colors HD, Colors Rishtey and Rishtey Cineplex, while it is present in the English GEC segment through Comedy Central, Vh1 and Colors Infinity. In the youth genre, it has channels such as MTV and MTV Beats; while in the children's genre, its portfolio is represented by channels such as Sonic, Nickelodeon and Nick Jr.

During September 2016, Viacom18 concluded the merger of Prism TV (a JV between Nickelodeon Asia Holdings Pte Ltd, a Viacom Inc. company, and TV18) with itself, effective from April 01, 2015. This added five RGECs – Colors Kannada, Colors Marathi, Colors Bangla, Colors Gujarati and Colors Oriya to Viacom18's portfolio. Furthermore, the company launched a second Kannada GEC, Colors Super in July 2016. The company also launched its Tamil regional GEC, Colors Tamil and its high definition (HD) feed during February 2018. It introduced a second movie channel and its first regional movie channel, Colors Kannada Cinema, in September 2018. The company launched two more regional movie channels, Colors Gujarati Cinema in February 2019 and Colors Bangla Cinema in June 2019 to further strengthen its regional presence.

Viacom18 also has a presence in the film production and distribution business under a division, Viacom 18 Motion Pictures. In addition to domestic film production and distribution, the company is also the sole distributor of all Paramount films in the Indian subcontinent. IndiaCast Media Distribution Pvt Ltd (IndiaCast), a JV between Viacom18 and TV18, is a content asset monetisation company, which manages the distribution and monetisation of the company's international business.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	3,664.9	3,871.7
PAT (Rs. crore)	80.5	353.6
OPBDIT/ OI (%)	5.5%	14.7%
PAT/OI (%)	2.2%	9.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.6
Total Debt/OPBDIT (times)	3.7	1.7
Interest Coverage (times)	4.2	7.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)						Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018		
					Nov-09-2020	Feb-28-2020/Jan-06-2020	Dec-07-2018	Mar-16-2018	Feb-09-2018	Nov-10-2017
1	Commercial Paper Programme	Short-term	500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund-based / Non-fund Based Limits	Short-term	1,575.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]AAA (Stable) Withdrawn/ [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AA % / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+
3	Fund-based / Non-fund Based Limits	Long-term/Short-term	0.0	-	-	[ICRA]AAA (Stable) Withdrawn/ [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AA% / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+
4	Unallocated Limits	Short-term	35.7	-	[ICRA]A1+	[ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AA % / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
NA	Overdraft / Working Capital Demand Loan / Letter of Credit / Bank Guarantee	NA	NA	NA	1575.00	[ICRA]A1+
NA	Short-term Unallocated Limits	NA	NA	NA	35.7	[ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-364 days	500.0	[ICRA]A1+

Source: Viacom18

Annexure-2: List of entities considered for consolidated analysis (as on March 31, 2020)

Company Name	Ownership%	Consolidation Approach
Viacom18 Media (US) Limited	100.0	Full Consolidation
Viacom18 US Inc.	100.0	Full Consolidation
Roptonal Limited, Cyprus	100.0	Full Consolidation
IndiaCast Media Distribution Private Limited	50.0	Equity Method

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